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PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

ANNUAL REPORT 1969

LEADERS IN THE GRAPHIC ARTS SINCE 1906

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors and Officers

GORDON R. GILLIES, *President*

J. R. SHAW, *Vice-President*

JOHN S. DINNICK

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE, *91 Gould Street, Toronto 2, Ontario*

ROTOGRAVURE DIVISION, *1150 Islington Ave. North, Rexdale, Ontario*

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Financial Highlights

EARNINGS	1969	1968
Sales - - - - -	\$7,347,776	\$6,495,118
Depreciation - - - - -	501,444	360,111
Income taxes - - - - -	367,600	314,700
Net earnings - - - - -	323,736	293,486
Net earnings per share - - - - -	1.85	1.68
Dividends paid - - - - -	150,500	140,000
Dividends paid per share - - - - -	.86	.80
BALANCE SHEET		
Additions to capital assets, net - - - - -	\$1,163,008	\$1,842,280
Shareholders' equity - - - - -	3,532,813	3,359,577
Shareholders' equity—per share - - - - -	20.19	19.20

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1969, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1969, sales amounted to \$7,347,776, an increase of \$852,658 or 13.1% over 1968. After meeting all charges, including a provision of \$501,444 for depreciation of plant and equipment, and a provision of \$367,600 for income taxes, there remained earnings of \$323,736 or \$1.85 per share compared with \$293,486 or \$1.68 per share for the previous year.

DIVIDENDS A quarterly dividend of 20 cents per share was paid March 1, 1969, while quarterly dividends of 22 cents per share were paid on June 1, September 1 and December 1, 1969, making a total distribution to shareholders of 86 cents per share or \$150,500 compared with a total distribution of 80 cents per share or \$140,000 in 1968.

WORKING CAPITAL As a result of our continuing expansion programme, current liabilities exceeded current assets by \$539,181 as at December 31. Further details are provided in the statement of Source and Application of Funds and in the notes to the financial statements.

EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1969 earnings employed in the business amounted to \$2,751,309 compared to \$2,578,073 last year.

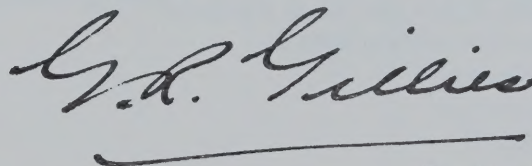
SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$3,532,813 equal to \$20.19 per share, compared with \$3,359,577 or \$19.20 per share a year ago.

PLANT EXPANSION The additional printing presses, bindery equipment, and ancillaries which were ordered in December, 1966 are now in production and have almost doubled our printing capacity.

Construction continues to progress favourably on the 100,000 square foot addition to our Etobicoke plant. The new building was estimated to cost about \$1,600,000 plus an additional \$200,000 for services and moving expenses, or a total of \$1,800,000. This estimate was prepared prior to wage settlements in the construction trades, and we now expect the total occupied cost of the building to be about \$1,900,000. At the present time, part of our artwork and photography is being produced in our plant at 91 Gould Street with the remainder being produced at our Etobicoke plant. Upon completion of the new addition in the latter half of 1970, we will be able to consolidate our Art and Photographic Studio departments. At that time, all departments of the Company will be in one location, resulting in benefits to both our customers and employees.

Your directors extend sincere appreciation to all employees who through their loyalty and efficiency throughout the year contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,

A handwritten signature in cursive script, reading "G.D. Gillies". The signature is written in dark ink and is positioned above a horizontal line.

President.

Toronto, Canada,
January 27, 1970.

PHOTO ENGRAVERS & I

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ASSETS

	1969	1968
CURRENT:		
Cash - - - - -	\$ 127,908	\$ 66,532
Short term investments at cost which approximates market value - - -	74,813	143,625
Accounts receivable - - - - -	373,748	202,240
Portion of notes due within one year under Employees' Stock Purchase Agreements (note 2) - - - - -	14,391	14,391
Inventories of work-in-process and materials at cost less progress payments received - - - - -	595,163	493,750
Prepaid expenses - - - - -	15,934	26,884
TOTAL CURRENT ASSETS - - - - -	1,201,957	947,422
CAPITAL—at cost:		
Land and roadways - - - - -	76,467	57,486
Buildings - - - - -	1,962,090	1,961,167
Machinery and equipment (note 1) - - - - -	8,114,555	7,459,053
	10,153,112	9,477,706
Less accumulated depreciation - - - - -	4,234,028	3,739,622
	5,919,084	5,738,084
Building under construction (note 1) - - - - -	480,564	
NET CAPITAL ASSETS - - - - -	6,399,648	5,738,084
OTHER:		
Notes due under Employees' Stock Purchase Agreements—non current (note 2) - - - - -	86,346	100,737
	\$ 7,687,951	\$6,786,243

On behalf of the Board:

G. R. GILLIES }
J. R. SHAW } *Directors*

(See accompanying ne

ELECTROTYPERS LIMITED

(In accordance with the laws of Canada)

SHEET

1969

at December 31, 1968)

LIABILITIES

	1969	1968
CURRENT:		
Bank loan (note 1) - - - - -	\$ 530,000	\$ 750,000
Accounts payable and accrued charges - - - - -	542,726	466,556
Income and other taxes payable - - - - -	382,412	164,110
Term bank loan due within one year (note 1) - - - - -	286,000	178,000
	<u>1,741,138</u>	<u>1,558,666</u>
TERM BANK LOAN (note 1) - - - - -	1,144,000	712,000
	<u>1,144,000</u>	<u>712,000</u>
DEFERRED INCOME TAXES - - - - -	1,270,000	1,156,000
	<u>1,270,000</u>	<u>1,156,000</u>
TOTAL LIABILITIES - - - - -	<u>4,155,138</u>	<u>3,426,666</u>
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized: 250,000 shares, no par value		
Issued: 175,000 shares - - - - -	781,504	781,504
Earnings employed in the business - - - - -	2,751,309	2,578,073
	<u>2,751,309</u>	<u>2,578,073</u>
TOTAL SHAREHOLDERS' EQUITY - - - - -	<u>3,532,813</u>	<u>3,359,577</u>
	<u>\$7,687,951</u>	<u>\$6,786,243</u>

(In accordance with the laws of Canada)

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1969

(with comparative figures for the year 1968)

	<u>1969</u>	<u>1968</u>
SALES - - - - -	\$7,347,776	\$6,495,118
COST OF SALES and all expenses, except the items noted below - - - -	5,945,641	5,393,972
Provision for depreciation - - - - -	501,444	360,111
Directors' remuneration (note 4) - - - - -	80,000	50,216
Interest expense on term bank loan - - - - -	95,287	58,222
Interest expense on current bank loan - - - - -	38,525	32,669
Interest income - - - - -	(4,457)	(8,258)
	<u>6,656,440</u>	<u>5,886,932</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - - - -	691,336	608,186
Provision for income taxes including deferred portion of \$114,000 (1968—\$226,000)- - - - -	367,600	314,700
NET EARNINGS FOR YEAR* - - - - -	323,736	293,486
Less dividends paid - - - - -	150,500	140,000
BALANCE OF YEAR'S EARNINGS - - - - -	173,236	153,486
EARNINGS EMPLOYED IN BUSINESS AT BEGINNING OF YEAR -	<u>2,578,073</u>	<u>2,424,587</u>
EARNINGS EMPLOYED IN BUSINESS AT END OF YEAR - - - -	<u>\$2,751,309</u>	<u>\$2,578,073</u>
*EARNINGS PER SHARE - - - - -	<u>\$1.85</u>	<u>\$1.68</u>

(See accompanying notes to financial statements)

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Source and Application of Funds

Year ended December 31, 1969

(with comparative figures for the year 1968)

	1969	1968
SOURCE OF FUNDS:		
Earnings for the year - - - - -	\$ 323,736	\$ 293,486
Charges not involving a current outlay of funds—		
Depreciation - - - - -	501,444	360,111
Deferred income taxes - - - - -	114,000	226,000
FUNDS FROM OPERATIONS - - - - -	939,180	879,597
Increase in term bank loan - - - - -	432,000	457,000
Repayments of notes due under Employees' Stock		
Purchase Agreements - - - - -	14,391	14,391
Special refundable tax - - - - -		25,260
	<u>1,385,571</u>	<u>1,376,248</u>
APPLICATION OF FUNDS:		
Additions to capital assets, net - - - - -	1,163,008	1,842,280
Reduction in funded indebtedness - - - - -		250,000
Dividends - - - - -	150,500	140,000
	<u>1,313,508</u>	<u>2,232,280</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	72,063	(856,032)
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR - - -	(611,244)	244,788
WORKING CAPITAL (DEFICIENCY) END OF YEAR - - - - -	<u>\$ (539,181)</u>	<u>\$ (611,244)</u>

(See accompanying notes to financial statements)

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Notes to Financial Statements

December 31, 1969

1. ADDITIONS TO CAPITAL ASSETS AND FINANCING THEREOF

In 1969 further expenditures aggregating \$647,000 were made for additional press, bindery and ancillary equipment. This substantially completes the plant expansion programme authorized by the Directors in 1966 at an approximate cost of \$3,800,000.

In June 1969, the Directors authorized an addition to the Etobicoke plant which is estimated to cost approximately \$1,900,000 and is expected to be completed during the second half of 1970. To December 31, 1969, \$480,600 had been expended on this plant addition.

Funds not available from operations to meet these expenditures are being provided by means of:

- (a) A term bank loan under which there is a maximum amount available of \$3,000,000 carrying interest at 8% per annum repayable over a five year period commencing in 1970.
- (b) A loan on a revolving credit basis under which the bank has made available to the Company a maximum amount of \$750,000 at the commercial bank prime rate of interest.

The Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the term bank loan is outstanding.

2. NOTES DUE UNDER EMPLOYEES' STOCK PURCHASE AGREEMENTS

These represent the amounts due under promissory notes made in 1967 by a director and senior management in favour of the Company in connection with the purchase of shares of the Company under its stock purchase plan. These promissory notes are payable in ten equal annual instalments.

3. PENSION PLANS

All the Company's employees are covered by the Canada Pension Plan and the majority by various union or Company administered retirement plans. The amount charged to income (including amounts paid to government pension plan) was \$101,900 in 1969 and \$88,600 in 1968 which amounts included amortization of prior service costs. The unfunded past service pension costs at December 31, 1969 were approximately \$142,600 and these will be charged to operations over the next eleven years.

4. DIRECTORS' REMUNERATION

Remuneration paid to the Company's directors includes amounts paid to directors holding salaried employment. Direct remuneration of directors and senior officers, as defined under The Securities Act, 1966 of Ontario, amounted to \$163,000 in 1969 and \$142,100 in 1968.

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1969 and the statements of earnings, earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 14, 1970.

CLARKSON, GORDON & Co.
Chartered Accountants

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1960	\$5,386,530	\$253,825	\$404,227	\$201,227	\$1.24	\$.80
1961	5,710,498	253,605	455,619	224,119	1.37	.80
1962	5,630,736	251,739	417,956	208,956	1.28	.80
1963	5,895,215	256,456	486,993	240,493	1.46	.80
1964	6,147,623	253,368	457,148	227,148	1.38	.80
1965	4,796,848	242,090	433,793	220,093	1.34	.80
1966	5,323,927	305,789	501,770	254,270	1.55	.80
1967	5,960,022	327,032	564,640	282,140	1.61	.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Funded Long Term Debt	Term Bank Loan	Shareholders' Equity	Shareholders' Equity Per Share
1960	\$1,274,845	\$ 5,441,294	\$3,202,818	\$2,000,000		\$2,057,995	\$12.63
1961	1,335,917	5,502,145	3,026,119	1,750,000		2,180,052	13.34
1962	1,357,477	5,560,655	2,837,513	1,500,000		2,264,759	13.82
1963	1,336,540	5,689,024	2,719,722	1,250,000		2,382,778	14.50
1964	922,983	5,329,854	2,735,802	1,000,000		2,496,185	15.19
1965	643,667	5,999,022	3,170,037	750,000		2,625,304	15.97
1966	764,131	6,535,191	3,403,065	500,000		2,920,041	17.77
1967	244,788	7,641,891	4,255,915	250,000	\$ 255,000	3,206,091	18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20
1969	(539,181)	10,633,676	6,399,648		1,144,000	3,532,813	20.19

